MULTIMEDIA UNIVERSITY STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BAC3654 – PROFESSIONAL ETHICS

(All sections / Groups)

31 MAY 2017
9.00a.m – 12.00p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **5** pages with **4** Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

For many years, Dreams Thunder, a large fabric retailer had achieved cost saving by sourcing its product from other countries where labour cost is cheaper and poor labour regulation. The board of Dreams Thunder regularly reviews their business risks. The boards realized on three particular risks that significantly affect Dreams Thunder. The three risks are exchange rate risk, supply risk and international political risk. The board is highly monitored towards these risks through regular meetings to discuss on the related matters that could potential affect the company.

It is being 15 years of collaboration between Dreams Thunder and Print and Color Company (P&C) from Swazi Port. P&C is the substantial supplier from the third world country. Swazi Port is extremely familiar with its low labour costs and weak regulatory controls. Located in the area nearby to the main port, Swazi Port has an extensive case involved reputation particularly due to corruption, among the government officers. The low labour costs is due to 'zero hours' contracts employment in Swazi Port. This arrangement stated that the production workers are employed by the hour as they are needed and released with no pay when there is no demand from customers.

Full purchases of Dreams Thunder's are from P&C. Recently, due to outstanding customers demand, P&C forecasted on the need to build a new plant. This new plant requires the local government's permission. In order to gain the easiest and quick approval process, P&C paid a substantial bribe to local government officers. P&C learned from other companies that the speed of the application process is quicker if the local government officers are "happy" with the applicant.

The low demand from the customers due to slow movement of world's economy recently had contributed financial pressure from Dreams Thunder to keep P&C prices low. This situation will affect the progress of the new plant construction. Again, P&C decided to pay bribe to the local government units that enforce the building regulations in Swazi Port. The bribe affects the quality of material and quality checking on building construction. In terms of quality of material, P&C would save costs by selection of inferior building materials and further variation of project schedule that shorten the period of construction by a year. The safety measurement being ignored as the escape doors are not included as part of the contingent escape plan in the new plant.

Throughout the years, P&C caters increases in their customer's demand which significantly lead to increase in number of workers in the new plant. The building specification which accommodates 1000 workers was ignored. Production was running continuously in order to fulfil orders from local and overseas customers, including Dreams Thunder. After third year of new plant operation, the media reported on P&C new plant collapsed which

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involved loss of 2850 lives. The situation was much worse when the plant was built without the escape doors.

Dreams Thunder was criticized by the leader of Labour Nation Group which lobbying on stringent requirement for working conditions and safety practices. The leader questioned on the economic pressures of the multinational companies such as Dreams Thunder. Dreams Thunder received a letter from Labour Nation Group with the media cuttings. This becomes a talking point in many countries. Dreams Thunder was written as unethical because it extremely focus on the supplies of cheap fabrics. The constant demand from Dreams Thunder created a culture of 'cheap wages", including at P&C.

The concern raised by the Labour Nation Group had received a lot of support from international medias. This support consistently contributes to constant pressures on Dreams Thunder's accountability. The Group requires the industry player to recognize their accountabilities to their shareholders and they also had a wider fiduciary duty in the public interest. Dreams Thunder had loss their focus on stakeholders' accountability. Dreams Thunder needs a stakeholder's programs that enable the authentic involvement of stakeholder throughout the business process. These programs will involve a range of activities at organisational and program levels, and working with partners. It could include sharing information, listening to stakeholders' views, involving them in decisions, reporting progress back to them and making changes based on their involvement so that activities will achieve outcomes based on their needs.

a. Define stakeholder claims and assess the stakeholder claims of Print and Color Company (P&C)'s employees and customers. How these claims may be in conflict?

(10 marks)

b. Provide **4 (four)** corruption situations in the context of the case and discuss how corruption at Print and Color Company (P&C) contributed to the collapse of the building and the loss of life.

(8 marks)

c. Briefly explain the issue of bribe from the perspective of utilitarian, deontology and virtue ethics.

(7 marks)

[TOTAL 25 MARKS]

QUESTION 2

It is being the 10th year of Energy Berhad, a listed company involved in electric supply. Recently, the industry requirement had highlighted on effectiveness of internal control in highly regulated industry. In order to support this requirement, Energy Berhad should establish an internal audit function. The external consultant of Energy Berhad, led by Robert Thomas explained that internal audit is important especially to the companies that involve in highly regulated industries. Assurance of integrity financial reporting should be supported by effective internal controls.

In addition, Mr Robert also recommended on the importance that all of the members of the Audit Committee should be represented by the professional electrical engineers. These professional are fully understood the nature of the industry and able to cope with its technical challenges. Currently, the members of the Audit Committee of Energy Berhad comprised of retired executive directors from different industries. During the review of the external audit practice, the Finance Division informed Mr Robert that the external audit practice of Energy Berhad was led by the Chief Executive officer's wife.

Mr Robert briefly explained on the importance of Audit Committee. The audit committee is a central pillar of effective corporate governance and is in the best position to offer effective oversight of the performance, independence and objectivity of the auditor and the quality of the audit. The audit committee operates as a representative of the board of directors from whom it receives its powers to perform its corporate governance responsibilities.

a. Define what internal audit is. Explain **3 (three)** importance of internal audit in a highly regulated industry such as the electric supply industry like Energy Berhad operates in.

(8 marks)

b. Explain **4 (four)** reasons why the audit committee is responsible to supervise the internal audit function. Based on the case, explain **3 (three)** indicators which Energy Berhad's audit committee has failed to meet the best practice.

(11 marks)

c. Discuss **3 (three)** ways how effective internal controls can provide assurance on the integrity of financial reporting.

(6 marks)

[TOTAL 25 MARKS]

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QUESTION 3

Since the mid 1980s, the Board of Directors of Atlas Electrica has seen the benefits of having non-executive directors or also known as independent directors, including their fresh ideas and new approaches to the company. As an established listed company, the Board members are reminded to strictly comply with the guidance of the relevant Code of Corporate Governance.

Of the current seven Board members, four are non-executive directors. The Chairman of the Board does not have any CEO responsibilities. His only means of influencing management through the Compensation and the Audit committees. At the monthly Board meetings where financial results, budgets and strategy was analysed and approved. Key senior managers are chosen based on professional and merit criteria.

Remuneration of the Board members is approved by the Board itself with the aim to be within reasonable limits when compared to other companies' compensation practices. There is remuneration paid for attending each Board meeting, normally held once in a month. The executive compensation is fixed taking into consideration comparative market information, reviewed and approved by the Compensation Committee of the Board. Approximately 20% of the senior managers' total compensation is linked to performance. To date, no stock options are granted to senior managers or Board members. The up-coming annual report will disclose the total amount distributed to directors and managers on an aggregate basis.

(Global Corporate Governance Forum, 2006)

a. Explain what is meant by a 'Code of Corporate Governance' and discuss **5 (five)** purposes of such a code in listed companies such as Atlas Electrica.

(13 marks)

b. Briefly explain **4 (four)** general roles of non-executive directors in a listed company such as Atlas Electrica.

(6 marks)

c. Provide **4 (four)** arguments why more non-executive directors than executive directors are desirable.

(6 marks)

[TOTAL 25 MARKS]

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QUESTION 4

a. 'A professional accountant in public practice, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles'.

[Malaysian Institute of Accountants (MIA) By-Laws]

Briefly describe the **5 (five)** types of ethical threats in the MIA By-Laws and briefly discuss how accepting excessive 'gifts' or 'hospitality' can give rise to **2 (two)** of these threats.

(12 marks)

b. 'Professional codes of conduct are designed to provide guidance about the conduct expected in order that the services offered will be acceptable quality and the reputation of the profession will not be violated'.

[International Federation of Accountants (IFAC)
Code of Ethics for Professional Accountants]

Briefly discuss **3 (three)** fundamental principles in codes of conduct for professional accountants in accordance with IFAC.

(6 marks)

c. Briefly explain to your engineer friend about the definition of conflicts of interest and **2 (two)** situations that might be faced by the audit firms when they are still offering management advisory services.

(7 marks)

[TOTAL 25 MARKS]

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